



Army Activity Based Costing



Activity Based Cost Methodology

Why we use it

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Background and Focus

- The term “Fully Burdened Cost” is most commonly used in labor applications
- NCFA staff research was unable to locate data backed up by analytical rigor that would support the creation of a fully burdened cost other than those related to labor
- The Army estimates cost on an activity basis.
- The decision to have an army commits the nation to some foundational requirements such as training areas, equipment, training staff, etc. that will need to exist regardless of the force mix
- The Army uses Activity Based Costing (ABC) to project the cost of services in the future based on current expenditures and the personnel using them



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Examples ("Fully Burdened Cost")

- Assume that costs have been accurately applied and apportioned to create a per soldier cost at \$110K per year
 - If this is true and we have no army we can have a 10K soldier army for \$1.1B
 - If we deduct soldier pay from this total we have \$1,100M-\$725.4M leaving \$374.6M to recruit, train, educate, sustain and equip that army.
- This example illustrates the problem with attempting to create a fully burdened rate. The cost per soldier used was based on the RFPB report from 2013

The cost to acquire one SBCT equipment set is \$1.76B

* Average Pay based on SBCT Grade Plate



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Examples (Installation)

- On installations many service costs are projected by expected population
 - Current cost for a service such as water for the installation are divided by the number of personnel on that installation to get a per capita cost.
 - Using the Army Stationing and Installation Plan (ASIP) the future populations can be determined.
 - We multiply the future population by the per capita cost and then adjust for inflation to gain the estimated future cost.
- For a service such as mowing an acreage cost is used to determine how much of that service will need to be contracted



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Examples (Personnel)

- Soldiers receive skill training and professional development training at various times across their career.
- Each year the Army makes a projection of how many soldiers will leave the service (retirement, ETS, other) and also where the holes in the force will appear.
- Once those numbers are determined the Army will allocate school seats to produce soldiers that will fill the holes.
- The cost of running the school divided by the number of expected students creates a per capita cost for estimating.
- Every year some soldiers will make PCS moves
- Again the Army makes a projection of how many soldiers will PCS, attend a school away from their home station, etc.
- Costs are calculated for the expected moves by category based on the number of soldiers expected to travel.